

# HERITAGE RAILWAY REVIEW: RECOMMENDATIONS



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# HERITAGE RAILWAYS INDEPENDENT REVIEW

## HERITAGE RAILWAY REVIEW: RECOMMENDATIONS

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## 1. CONCLUSIONS & RECOMMENDATIONS

1.1.1 This review has been undertaken to address terms of reference developed by the DoI. The recommendations below are direct responses to the Terms of Reference. In addition to the very specific recommendations we also set out below some general recommendations based on our observations and analysis whilst undertaking this review.

### 1.2 General Recommendations & Observations

1.2.1 During the preparation of this report SYSTRA undertook both stakeholder engagement and public consultation work, supported by site visits to the Island. This highlighted the passion and enthusiasm that exists for the railways both amongst the general public, supporters groups and railway staff.

1.2.2 It is also clear that the railways have continued to positively progress across a number of areas since the previous review undertaken in 2018, despite the challenges posed by the COVID-19 pandemic. Since around 2010 the railways can be seen to have been in a protracted period of recovery from sustained underinvestment. This phase is beginning to draw to a close with an enhanced infrastructure and a good understanding of costs.

1.2.3 The railways now need to look to their development over the next 10 to 15 years. We recommend that this maintains the understanding of asset condition and costs that allows the railway to be managed in a stable way, but moves towards understanding what is needed to further enhance the visitor experience with the ultimate aim of increasing revenue and passenger numbers. Linked to this are three related recommendations:

#### Recommendation 1 – Strategy Development

1.2.4 Our first recommendation is that a strategy is produced for the development of the railway over the period to 2040. As part of our review it has become that there are many perspectives on how the railway could be developed but there is a lack of a clear, unified vision. In part, this is because the railways have for many years been focussed on moving from a position of reactive to proactive asset management. A clear strategy would articulate how the railway will develop and what this would deliver for the Island's economy.

1.2.5 The development of a strategy would provide reassurance to decisionmakers of the value of the investments being made in subvention and capital investment and evidence how investments will support the economy. Aspects of this review, by providing clarity around, among other issues, the contribution of the railway to the wider economy and the operating and capital cost implications and revenue opportunities of options should provide a foundation for strategy development.

#### Recommendation 2 – Engagement with Tourist Organisations

1.2.6 A recurring theme that has emerged through stakeholder engagement work is a lack of coordination and engagement between tourist organisations. This is not a specific issue relating to the railways, but a wider issue across the Island, that organisations such as Visit Isle of Man are both aware of, and attempting to address. However, the railways' role in providing access to leisure attractions and enhancing their leisure offering makes this coordination particularly important. Greater coordination and knowledge sharing between organisations

should ultimately lead to a stronger more appealing tourism offer bringing greater tourism spend.

### Recommendation 3 – Digital Marketing

1.2.7 An area that urgently needs to be addressed is the digital marketing of the railway. The railway is currently served by a non-descript webpage which forms part of the Bus Vannin website. This provides the basic information required to plan a journey, although the layout is not intuitive.

1.2.8 This compares very poorly to the websites of many other heritage railways which go beyond providing information to instead actively market their services. This is an area that railway management already plan to address but should be brought forward as soon as possible.

## 1.3 Financial Performance & Benchmarking

Within this section we address the following elements of the terms of reference:

- Identification and analysis of the revenue and capital costs of operating each element of the heritage railways in 2022/2023, and how these: compare between themselves, vary since SYSTRA estimated them in 2018, and stack up against comparator heritage railways elsewhere, with recommendations.
- Benchmarking and other analysis to clarify the appropriate level of investment in the track, rolling stock and the promotion proposition that is needed for a heritage rail network of this type, and how this compares to current investment here.
- Analysis of the nature, extent and justification of the public subvention to heritage railways, and how this compares to any public subvention provided to heritage railways elsewhere, taking into account such things as the availability of UK lottery funding, legacies and other grants.
- Comparison to other heritage railways of fares and other revenue opportunities, such as required car parking, inclusion in travel and leisure cards, and retailing and other revenue raising, and recommendations about pricing and revenue policy.

1.3.1 We have undertaken a detailed review of the costs and revenues associated with the railway and have also undertaken benchmarking works against other heritage railways.

1.3.2 The key conclusions of our analysis are that:

- Subvention has remained constant in real terms since 2018. This is an achievement for the railway as, over this period, inflation in many of the railways cost areas has risen faster than general inflation. Part of the explanation for this relates to public sector pay restraint which is relevant as staff costs represent a large proportion of total costs.
- The railways' operating costs (fixed and variable costs combined) per train mile are lower than many comparator heritage railways. This is partly due to the characteristics of the Islands Railways with narrow gauge steam trains having lower operating costs than standard gauge equivalents, and whilst the MER and SMR are staff intensive they otherwise have low movement costs; this restricts the savings from timetable reductions. Another point is that many other railways gain more revenue from events and ancillary sources than the IoM Railways do, but these incur their own costs.

- Other heritage railways do incur large staff costs with at least two having costs in excess of £2m per annum. Staff costs tend to be associated with those railways with longer seasons and a greater number of operating days. This highlights that many of these are, like the IoM Railways, significant visitor attractions which are too large to rely entirely on volunteer operation.
- Understanding capital spending on heritage railways is complex. What is clear is that there is a reliance on reserves, fundraising and ad hoc public sector grants. Many railways have avoided the spike in capital spending the IoM has seen through ongoing management and small scale renewals of permanent way, though many railways have periodic urgent fundraising requirements to address renewal of specific items of infrastructure such as bridges. As structures and earthworks age the need for these major renewal projects is increasing. The railways on the IoM are now in a much stronger position than many UK heritage railways, having both a good understanding of asset condition, and benefiting from recent renewals, which should mean that the level of capital spend can be proactively managed going forward.
- The recent changes to full fare ticket prices have brought the IoM Railways into line with the average for heritage railways as a whole.

1.3.3 Based on our analysis we do have the following recommendations:

#### **Recommendation 4 - Pricing**

1.3.4 We have highlighted that full fare tickets are priced in line with other heritage railways. We do however recommend that a conscious decision is made about the pricing of Go Explore multi modal tickets and group ticket discounts. The increase in the cost of Go Explore tickets has not kept pace with the price of full fare tickets, leading to significant erosion of yield per passenger compared to full fare tickets. These tickets do provide an affordable way for tourists to travel around the Island without a car, but a strategic decision needs to be taken on whether these tickets should be retained at a low price to promote sustainable tourism or should see an increase in price to help reduce subvention levels.

#### **Recommendation 5 – Capital Investment**

1.3.5 Over the last 20 years the permanent way of all four railways has seen almost complete renewal. There are still a number of areas where renewal is required but assuming that this work is funded the need for investment in renewals will reduce considerably going forward. The Steam Railway should not require substantial track renewals for 15 years and the MER and SMR should avoid further renewals after the current programme for at least 30 years. Defining an optimal level of capital funding is difficult but there is now a need for a change toward a greater emphasis on enhancements. The detail of spending should be derived as part of the strategy proposed above. However it would cover increases in the operational rolling stock fleet to provide resilience and allow targeted service increases and enhancement to passenger facilities. Capital spending has fallen from £5m per annum to around £2.5m in 2023. Ideally this should be increased again for a small number of years to allow the track renewals programme to be completed, after which it should reduce to a lower but consistent level.

## Recommendation 6 – Ancillary Revenue

- 1.3.6 The railways currently have lower levels of ancillary revenue than comparable heritage railways. This is an area where there is scope to significantly increase revenue, for example through development of more directly operated retail and catering outlets. Doing so would generate additional revenue helping to reduce subvention requirements. It should be recognised that a barrier to achieving this currently is a lack of available funding to help these initiatives. This again is an area that could be developed in a long term revenue- and yield-growth strategy.

## 1.4 Wider Economic Impacts

Within this section we address the following element of the terms of reference:

- Review and estimation of the true value of heritage railways, and how this compares to the value of heritage railways elsewhere, including measurement of the value of direct and indirect off- and on-Island tourist and other leisure user expenditure.

- 1.4.1 Our analysis of the wider economic impacts of the heritage railways has shown that for every £1 spent in subvention and capital investment there is a benefit to the economy of £2.88. The total direct and indirect impacts on the economy total around £17m each year formed of a mixture spending by visitors and spending by the railway itself. This is another area in which the Isle of Man is unique. The majority of visitors come from off the Island meaning that any visitor spend is new income to the Island economy. This is different to the UK, where whilst heritage railway will generate a similar level of economic impact a larger proportion of visitors will be day trippers (thus spending less) and the spending itself is a transfer within the UK economy rather than a generator of new income to the economy.

- 1.4.2 On the Isle of Man it is important to see the railways as an asset to the economy as well as an important cultural and historic asset. One of the aims of the strategy highlighted in Recommendation 1 would should be to develop a plan to further increase this economic value.

## 1.5 Organisational Structure & Volunteering

Within this section we address the following element of the terms of reference:

- Consideration of how Department of Infrastructure, Department for Enterprise, Manx National Heritage and other public bodies could or should be involved in heritage railways governance, funding and operations.
- Evaluation of other organisational structures including charity and foundation status, for fundraising and operations, and how the Island’s heritage railways associations and volunteers are involved currently, and could be involved.
- Benchmarking of the terms and conditions of the human resources employed on the Island’s heritage railways and to what extent volunteers could be used.

- 1.5.1 Our review has considered a number of difference organisational structures for the railways to understand if there is a case for altering the railways’ current structure. This has included considering private sector involvement, operation as a charitable trust and alterations to the

current structure of government ownership. Linked to this we have examined the role that volunteers might play in the operation of the railway. This is material to questions on organisational structure as staff costs represents around 70% of the railways operating costs and is therefore the main driver of the need for subvention.

- 1.5.2 A critical point in reflecting on the case for volunteers is the scale of the Island’s rail network. The Isle of Man has over 50 times the length of heritage railways per person that the UK does. This fact is salient in understanding our recommendation around volunteering, which in turn drives our recommendation around organisational structure.

#### **Recommendation 7 – Volunteering**

- 1.5.3 Our conclusion on volunteering is that there is no role for the use of volunteers in the existing engineering and operational teams. This is based on an analysis of population participation rates for heritage railways in the UK. When translated to the Isle of Man it has been shown that even in the most optimistic scenario the number of volunteers available would be wholly insufficient to operate even a small proportion of current services. This is also backed up by evidence from engagement with the Groudle Glen Railway who confirmed that resourcing sufficient volunteers for their own much smaller operation can at times be challenging, and also from other engagement where it was highlighted that rates of volunteering amongst the population have fallen in recent years. The possible exception to this are operating staff (driver/conductor) for the Douglas Bay Horse Tram where a small number of staff are required and where a wider pool of volunteers might be sought from those with an interest in horses as well as those with an interest in railways.

#### **Recommendation 8 – Board of Directors**

- 1.5.4 We recommend that a Board of Directors be formed to oversee the management and development of the railway. The board would be composed of voluntary directors with representatives from a range of stakeholders such as DfE, DoI, enthusiast and supporters associations, Visit Isle of Man and an independent off island representative with experience of heritage railways. The board would be there to provide support to railway management covering a cross section of skills and experience. It would also be responsible for setting the direction and strategy for the railway building on our comments in Recommendation 1.

#### **Recommendation 9 – Organisational Structure**

- 1.5.5 Our conclusion around options for organisational structures are that the railways should remain in public ownership. The rationale for this is that the scale of both subvention and capital spending required and the lack of alternative funding sources means the government will have to continue to support the railways. Recommendation 8 to form a board of directors sets the basis for operation of the railways as an arm’s length publicly owned company. The railway would still require a parent department within government. With the transition towards a railway looking more firmly at long term business growth and development, having successfully overcome its issues with asset management and condition, it is appropriate for the Department for Enterprise to have a greater role in the development of the railways. The rationale for this being that the railways have a function in addressing the wider objectives of the DfE. This function could however be delivered through the Board of Directors, with the Department of Infrastructure continuing to act as parent department with ultimate responsibility for infrastructure and operational liabilities.



## 1.6 Network Development

Within this section we address the following element of the terms of reference:

- Evaluation of whether the heritage railways could be used to provide regular passenger and freight services given the costs and benefits.
- Analysis of the cost benefit viability of each major section of the railway on a standalone and combined basis, including evaluation of the impact of the length of the horse tramway and extending Manx Electric Railways operations to the War Memorial.
- Evaluating the appropriateness of the timetable, including in particular the operating period and the number of scheduled services for each element of the heritage railways.
- Consideration of the alternative use of any railway assets found to be no longer required.

1.6.1 Our work has reviewed a range of options for the rail network testing both development and curtailment. The recommendations emerging from these tests are summarised below:

### **Recommendation 10 – Network Value**

1.6.2 Our review of the impact of truncating parts of the network has shown that there is no case for the withdrawal of services between Castletown and Pot Erin; it has been shown that new disbenefits would be generated from the loss of the service while the cost savings were relatively small. Whilst on Laxey – Ramsey although it was shown that there would be a small benefit from withdrawing services this excluded the impact on visitor spending. Despite assuming active travel provision replacing the service would retain some of the visitors it is assumed the demand for cycle trips is lower than that for train travel and therefore the impact on visitor spending would be negative. As this section is the most scenic part of the MER it would be expected that withdrawal of the route to Ramsey would result in a fall in visitor numbers to the Island and reduction in visitor spend. If a strategy of immediate reduction in subvention is sought, this truncation would offer significant cost savings. However, if a long term strategy of more closely aligning the railway with the visitor economy was decided on this could be undermined by closure of a substantial portion of easily-maintainable good quality track.

### **Recommendation 11 – Laxey – Ramsey Cycle track**

1.6.3 Part of our brief was to consider alternative options for development. As a case study we examined the conversion of the Laxey – Ramsey route to single track operation with passing loops to provide space for a parallel cycle track. This option allows for some ongoing track maintenance savings while retaining and enhancing the green travel benefits of the railway, although at the cost of additional capital expenditure. Although only indicative business case work, our findings suggest that this would not represent value for money unless usage across the year averaged more than 475 cycle trips per day. Given the seasonal nature of tourism on the Island we believe that this proposal is not viable unless significant cost savings can be made in construction compared to the indicative costs assumed here.

### **Recommendation 12 – A Ramsey – Douglas Commuter Service**

1.6.4 Although the railways are evidently much more important as visitor attractions or transport for leisure travellers than as regular public transport, the low marginal cost of an additional

service justified appraising the value of introducing two morning and two evening commuter services on the MER. The case appraised was for a new electric train to provide these services, with additional points at Derby Castle to allow the service to run closer to the centre of Douglas. 88 passengers per service would be required to return positive value for money – an ambitious but plausible number of passengers.

### **Recommendation 13 – Horse Tram reinstatement to War Memorial and Sea Terminal**

- 1.6.5 Our modelling work has shown that the financial case for reinstatement of the horse tram to either the War Memorial or the Sea Terminal would require very large increase in passenger numbers to avoid a further increase in subvention, based on current operating methods. There is clearly a strategic case for reinstatement to the Sea Terminal. This is an example where the change in emphasis around capital spending could produce benefits, with the Sea Terminal being utilised as part of the railways visitor facilities perhaps prior to investment in facilities at Derby Castle.

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